

WTTC HAWAII TOURISM REPORT

1998



HOW TRAVEL & TOURISM AFFECTS HAWAII'S ECONOMY



THE WORLD'S LARGEST INDUSTRY AND GENERATOR OF JOBS

**This report is presented on behalf of the following Hawaii-based Research Sponsors
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This is the third year we have produced the WTTC Hawaii Tourism Report, which reveals the economic contribution of Travel & Tourism in Hawaii. As before, the report uses satellite accounting methods developed and implemented by WTTC and the WEFA Group, to consider the total impact Travel & Tourism brings to the study area, including Gross State Product, employment, capital formation, and tax revenue. The *WTTC Hawaii Tourism Report 1998* is one of more than 20 similar, detailed analyses of national, regional and global economies that have been completed by WTTC and WEFA for areas around the globe.

WTTC and WEFA have endeavored to improve their work each year, and 1998 is no exception. They have cooperated with other organizations, under the auspices of the World Tourism Organization, to develop an international standard for Travel & Tourism satellite accounting, which will be considered at an International Conference in 1999. Accordingly, the *WTTC Hawaii Tourism Report 1998* reflects an economic model that has been restructured and restated in line with the proposed international standard. We believe it provides greater insight into the economic make-up of the "Travel & Tourism Industry" and the linkages into the broader "Travel & Tourism Economy."

The 1998 results are consistent with, but not strictly comparable to those from the previous two years. Nevertheless, even in this difficult year, Travel & Tourism remains the largest segment of Hawaii's economy, directly accounting for nearly one-third of the jobs, 28 percent of the Gross State Product, 64 percent of the state exports, and 28 percent of total taxes. The charts on the following pages clearly show how Hawaii is positioned in comparison with the Caribbean and the World's economies.

New this year is a study of the statewide impact of the Hawaii Convention Center, using the same satellite accounting methodology. We can be proud of this facility and at the same time reassured that the center should make a profit for the state from the first full year of operation. It also will provide, directly and indirectly, meaningful employment and economic opportunity for thousands of Hawaii's citizens.

The overall message is clear — *In Hawaii, Tourism Is Everybody's Business.*

I want to thank the nearly 60 members of the private sector who supported this vital research, and the Hawaii Convention Park Council for its assistance with the work done on the economics of the Hawaii Convention Center. Mahalo to Hawaii's economists, listed on page 26, for their review and constructive suggestions. My special thanks to Dr. Seiji F. Naya and his excellent staff at Hawaii's Department of Business, Economic Development and Tourism for their enthusiastic assistance, expertise and support.

Aloha,

A handwritten signature in black ink that reads "Richard R. Kelley". The signature is written in a cursive, flowing style.

Richard R. Kelley
May 20, 1998

TABLE OF CONTENTS

Research Sponsors	Inside Front Cover
Message from Dr. Richard R. Kelley, Chairman, Outrigger Hotels & Resorts	i
Message from the World Travel & Tourism Council	ii
Travel & Tourism's Economic Impact	1
Travel & Tourism's Millennium Vision	2
The Satellite Account: Progress and Concepts	3
Total Demand	5
Employment	6
Gross State Product	7
Capital Investment	8
Personal & Business Travel	9
Exports	10
Government Spending	11
Taxes	12
Comparing Impact	13
The Convention Center	14
Satellite Account Tables	15
More Tables	16
Travel & Tourism Definitions	17
WTTC Policy Agenda for Hawaii	18
GREEN GLOBE	24
WTTC Membership	25
WTTC, WEFA and Technical Review Team	Inside Back Cover



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The notion that Travel & Tourism is everyone's business is reinforced by this third edition of the **WTTC Hawaii Tourism Report** and WTTC / WEFA's implementation of the proposed international standard for Travel & Tourism Satellite Accounting.

Following a modest restructuring of the satellite account, building in several technical enhancements and application of the latest WEFA forecasts on the Asia/Pacific economic situation, this new report estimates that 179,950 Hawaii jobs in 1998 will directly or indirectly result from the Travel & Tourism economy. These jobs will represent 31.6% of total employment in Hawaii, or 1 in every 3.2 jobs. By 2010, twelve years from now, Hawaii's Travel & Tourism economy employment (direct and indirect) will grow to 221,710 jobs, 37.8% of total or 1 in every 2.6 jobs.

However, unlike previous optimistic WTTC / WEFA estimates for Hawaii Travel & Tourism growth, this 1998 Report documents the recent disappointments of 1996 and 1997 results, and forecasts continuing challenges in the near-term (1998/1999).

On the positive side, this new report shows how the new Hawaii Convention Center, even in this environment, is expected to add significant amounts to visitor receipts and tax rolls, well in excess of its costs.

With this new report, we are also presenting a more detailed picture of the inter-workings of the Travel & Tourism economy in Hawaii and how this sector interrelates with the rest of the State economy. The complexity of the research can be unnerving, but careful analysis does illustrate the dependency that Hawaii's total economy has on Travel & Tourism and how seemingly innocuous decisions and far away events can have a real impact on the State's largest industry and employer.

We encourage state and local officials to use this report and its findings to put Hawaii Travel & Tourism into perspective and focus on the important Millennium Vision issues that will help turn the corner to recapture the promise of growth for Hawaii.

Harvey Golub
Chairman

Geoffrey H. Lipman
President

TRAVEL & TOURISM'S ECONOMIC IMPACT

Travel & Tourism - encompassing transport, accommodations, catering, recreation and services for travelers - is one of the world's largest industries and generators of quality jobs. It is expected to generate US\$ 4.4 trillion of economic activity (supply/demand) and 231 million jobs (direct and indirect) worldwide in 1998, growing to US\$ 10.0 trillion of economic activity and 328 million jobs by 2010.

In Hawaii, Travel & Tourism is expected to generate US\$ 14.6 billion of economic activity and 179,500 jobs in 1998. By 2010, Hawaii Travel & Tourism is expected to produce US\$ 28.2 billion of economic activity and 233,160 jobs.

In 1998, the Travel & Tourism economy should contribute 11.6% to worldwide Gross Domestic Product (GDP) - 12.5% by 2010.

The Hawaii Travel & Tourism economy is expected to contribute 27.8% to Gross Domestic Product in 1998. By 2010, this contribution should increase to 32.2%.

Travel & Tourism is a high growth activity, which is forecast to grow its total supply/demand 4.1% per annum worldwide (real terms, adjusted for inflation) over the next twelve years.

In Hawaii, Travel & Tourism demand is expected to grow 41.5%, in real terms, between 1998 and 2010 (2.9% per annum).

Travel & Tourism is human-resource intensive, creating quality jobs across the full employment spectrum. Globally, 1 in 10.7 jobs, directly and indirectly, is generated by the Travel & Tourism economy.

In Hawaii, civilian employment (direct and indirect), resulting from the Travel & Tourism economy is expected to total 31.6% in 1998, or 1 in every 3.2 jobs. By 2010, this total should grow to 37.8% or 1 in every 2.6 jobs.

Travel & Tourism is a major exporter, with inbound visitors injecting dollars and foreign exchange directly into the economy.

In Hawaii, Travel & Tourism exports make up the most important share of Travel & Tourism's contribution to Gross State Product. Of total state exports, services and merchandise, Travel & Tourism is expected to generate 64.3% in 1998, growing to 70.6% by 2010.

Travel & Tourism is a catalyst for construction and manufacturing. In 1998, the private and public sectors combined are expected to spend US\$ 779 billion in new Travel & Tourism capital investment worldwide (11.8% of total), and US\$ 1.8 trillion by 2010 (12.0% of total).

Capital investment in Hawaii to support the state's Travel & Tourism economy is expected to total US\$ 1.0 billion in 1998, or 19.8% of total state investment. By 2010, this total should reach US\$ 1.9 billion, or 19.4% of total.

Travel & Tourism is both a generator and receiver of government funds. Globally in 1998, Travel & Tourism is expected to generate US\$ 802 billion of taxes (10.6% of total), while channeling US\$ 253 billion of government expenditures (6.8% of total). By 2010, taxes should increase to US\$ 1.8 trillion (11.4% of total) and government spending to US\$ 542 billion (7.4% of total).

Total Taxes from Travel & Tourism in Hawaii in 1998 are expected to total US\$ 1.9 billion or 28.2% of total, while it expects to benefit from US\$ 544 million, or 6.0% of total government operating expenditures. Over the next 12 years, Hawaii Travel & Tourism taxes are expected to grow to US\$ 3.7 billion or 32.0% of total taxes. In contrast, government spending is forecast to grow to US\$ 644 million, or 5.0% of overall government spending.

Hawaii Estimates and Forecasts

	----- 1998 -----		----- 2010 -----		Growth
	US\$ Mil.	% of Tot	US\$ Mil.	% of Tot	% Real**
Consumer Expenditures	1,463	6.4%	2,434	6.6%	1.6%
Business Travel	641	---	1,054	---	1.5%
Government Expenditures	544	6.0%	644	5.0%	-1.3%
Capital Investment	1,044	19.8%	1,896	19.4%	3.4%
Exports	10,911	64.3%	22,193	70.6%	3.3%
T&T Demand	14,603	---	28,221	---	2.9%
GDP*	9,445	27.8%	18,203	32.2%	3.0%
Imports	5,158	25.1%	10,018	28.7%	2.9%
Taxes	1,939	28.2%	3,667	32.0%	2.9%
Employment* (Jobs)	179,750	31.6%	233,160	37.8%	2.2%
*Travel & Tourism Economy Totals **Annualized Growth					

In looking to the 21st century, it is predicted that the global economy will be driven by three super service industries: information technology, telecommunications and Travel & Tourism. Within Travel & Tourism, there is a unique opportunity to create more than 100 million new jobs across the global economy through public and private sector cooperation in four key areas. We call on the citizens of Hawaii and its state and county governments as well as appropriate federal agencies to share this Millennium Vision.

Make Travel & Tourism a Strategic Economic Development and Employment Priority

- ◆ Recognize the industry's economic and social contribution and include it in mainstream programs for job creation, export promotion and investment stimulation.
- ◆ Establish a State Satellite Account for Travel & Tourism.

Move Toward Open and Competitive Markets

- ◆ Support the implementation of the General Agreement on Trade in Services (GATS), liberalize air transport especially to and through Asian countries, and deregulate telecommunications in international markets.
- ◆ Enhance promotion of State of Hawaii Travel & Tourism and encourage product quality improvements to compete more effectively for visitors.

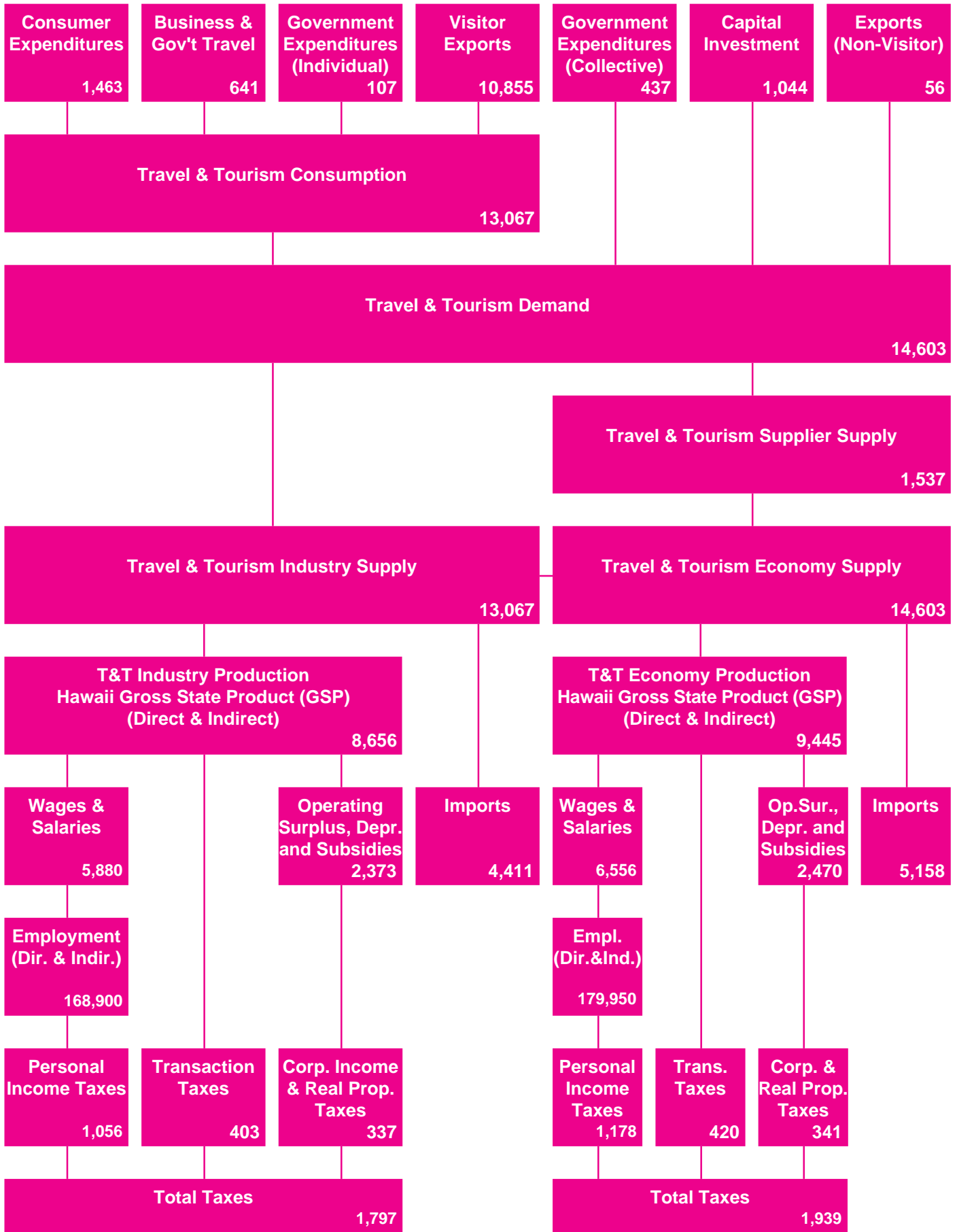
Pursue Sustainable Development

- ◆ Establish a policy framework for sustainability, and encourage industry environment initiatives.
- ◆ Expedite zoning and permitting procedures.

Eliminate Barriers to Growth

- ◆ Expand and improve infrastructure - increasing airport capacity, modernizing air traffic control systems and structures, and improving highways, roads, beaches and meeting facilities.
- ◆ Support implementation of FAST automated border clearance, extension of the visa waiver program and elimination of visas altogether where possible.
- ◆ Tax intelligently for growth and exports.
- ◆ Invest in human resource development.
- ◆ Provide for visitor safety and security.

**State of Hawaii Travel & Tourism Satellite Account
1998 Estimates (US\$ Millions, Except Employment)**



The WTTC / WEFA Travel & Tourism Satellite Accounting research for 1998 reflects: a significant realignment of our concepts and framework with the latest international standard being developed by the public / private sector Experts Committee under the auspices of the World Tourism Organization (see diagram on preceding page); a number of operational, analytical and data source enhancements used in the preparation of the research; and application of WEFA's latest world macroeconomic forecasts.

With this new international standard (proposed), some of the earlier WTTC/WEFA research concepts have been modified and enhanced, providing greater detail into the inter-workings and inter-linkages of the **Travel & Tourism Industry** and the broader **Travel & Tourism Economy**. The former captures the technical production-side "industry" equivalent for comparison with all other industries, while the latter captures the broader "economy-wide" impact of Travel & Tourism.

Details and Economic Concepts

The Travel & Tourism Satellite Account is based on a "demand-side" concept of economic activity (i.e. the economic activities of visitors and travel companies), because it does not produce or supply a homogenous product or service like traditional industries (agriculture, electronics, steel, etc.). Instead, Travel & Tourism is a collection of products (durables and nondurables, consumer and capital) and services (activities) ranging from airline and cruise ship fares, to accommodations, to restaurant meals, to entertainment, to souvenirs and gifts, to immigration and park services, to recreational vehicles and automobiles, to aircraft manufacturing and resort development.

To implement a demand-side approach for Travel & Tourism, the Satellite Account has identified two major concepts, Travel & Tourism Consumption and Travel & Tourism Demand, which help differentiate between the technical "industry" impact and the broader Travel & Tourism "economy" impact.

From an "industry" perspective, Travel & Tourism produces products and services for visitor consumption (**Travel & Tourism Consumption**) including:

- ◆ **Consumer Expenditures** which includes the traditional personal spending by Hawaii residents on services that are normally associated with Travel & Tourism (lodging, transportation, entertainment, meals, financial services, etc.); as well as goods (durable and nondurable) which are purchased by residents and used for Travel & Tourism activities.
- ◆ **Business and Government Expenditures** for "business travel" which mirror those of personal consumption (transportation, accommodation, meals, entertainment, etc.), but are undertaken in the course of business or government work.
- ◆ **Government Expenditures (Individual)** by agencies and departments on behalf of individual visitors such

as cultural institutions (art museums) or national/state parks and customs and immigration.

- ◆ **Visitor Exports** are expenditures of out-of-state visitors on goods and services.

From an "economy" perspective (**Travel & Tourism Demand**), Travel & Tourism produces products and services for visitor consumption (as discussed) as well as products and services for industry demand including:

- ◆ **Government Expenditures (Collective)** by agencies and departments associated with Travel & Tourism, but made on behalf of the community-at-large, such as tourism promotion, aviation administration, security services and sanitation services.
- ◆ **Capital Investment** by Travel & Tourism providers (the private sector) and government agencies (the public sector) to provide facilities, equipment and infrastructure to visitors.
- ◆ **Exports (Non-Visitor)** which include consumer goods sent abroad for ultimate sale to visitors (such as clothing, electronics or gasoline) or capital goods sent abroad for use by industry service providers (such as aircraft or cruise ships).

By employing input/output modeling to these two aggregates, the Satellite Account is able to differentiate between **T&T Industry Production** and **T&T Economy Production**. The Satellite Account is even able to determine that portion of supply which it **Imports** from out-of-state. Finally, the Satellite Account breaks down the supply side accounts into the **Direct** and **Indirect** impacts and the individual **Gross State Product** (GSP) elements (**Wages & Salaries, Transaction Taxes, Operating Surplus, Depreciation, and Subsidies**).

One of the most important elements of the Travel & Tourism Satellite Account is the **Employment** results which can now be quantified for the narrow "Travel & Tourism industry" and the broader "Travel & Tourism economy."

- ◆ **T&T Industry Employment (Direct)** generally includes those jobs with face-to-face contact with visitors (airlines, hotels, car rental, restaurant, retail, entertainment, etc.).
- ◆ **T&T Industry Employment (Indirect)** generally includes those jobs associated with industry suppliers (airline caterers, laundry services, food suppliers, wholesalers, accounting firms, etc.).
- ◆ **T&T Supplier Employment (Direct)** generally includes those jobs associated with government agencies, manufacturing and construction of capital goods and exported goods used in Travel & Tourism.
- ◆ **T&T Supplier Employment (Indirect)** generally includes those jobs associated with supplied commodities (steel producers, lumber, oil production, etc.).

The first two categories cover the technical **Travel & Tourism Industry Employment** while all four categories cover the broader **Travel & Tourism Economy Employment**.

TOTAL DEMAND

Travel & Tourism in the State of Hawaii is expected to produce \$14.6 billion of total demand in 1998, including:

- ◆ \$1.5 billion of Travel & Tourism personal consumption (6.4% of total) by state residents;
- ◆ \$0.6 billion of business and government travel by in-state companies and government employees;
- ◆ \$0.5 billion of government expenditures (6.0% of total) to provide individual and collective services to the Hawaii Travel & Tourism industry and its visitors;
- ◆ \$1.0 billion of capital investment (19.8% of total) in personal, commercial and public Travel & Tourism facilities, equipment and infrastructure by residents, Travel & Tourism companies, local, state and federal governments; and
- ◆ \$10.9 billion of visitor and trade exports (64.3% of total) generated from international and mainland markets.

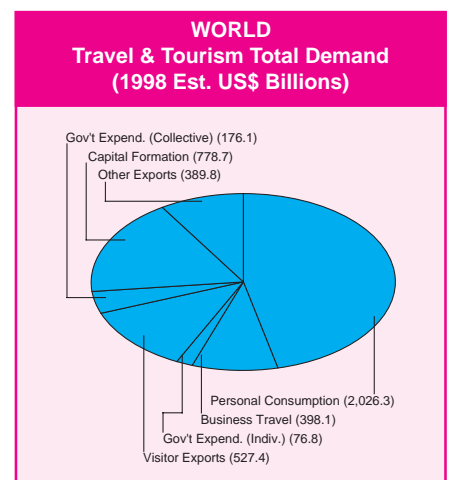
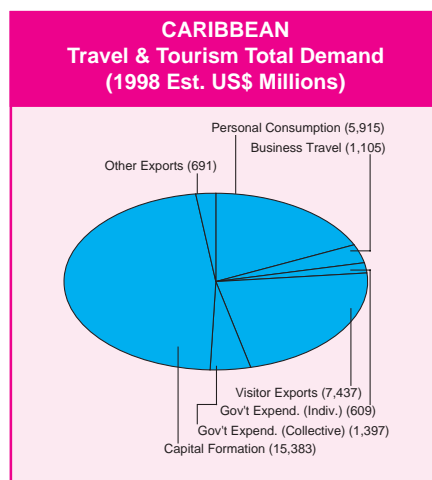
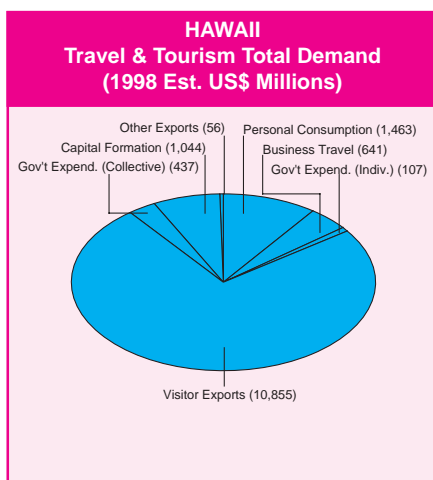
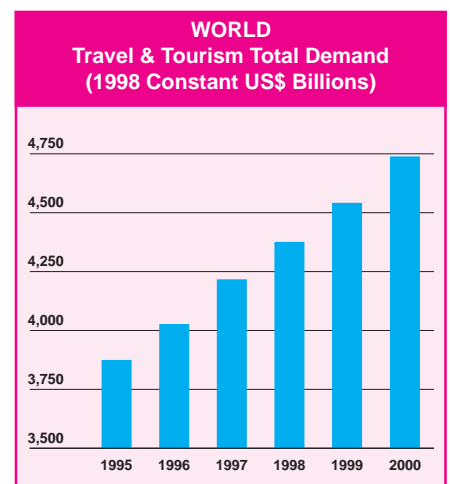
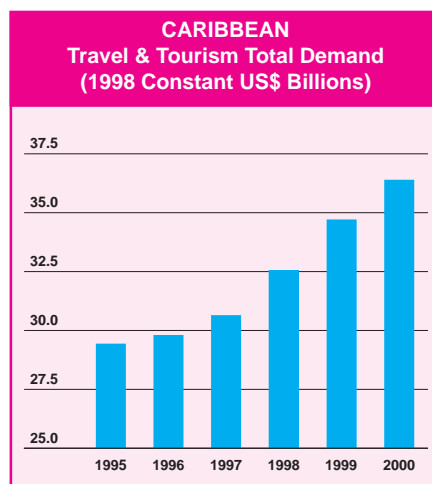
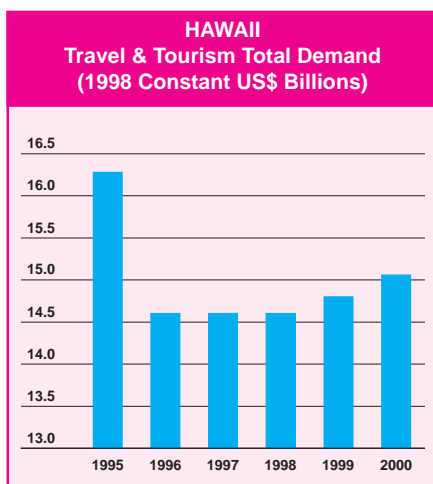
Illustrated in the pie chart below is the painfully obvious conclusion that Hawaii Travel & Tourism demand is driven by its visitor exports (74.3% of total demand in 1998).

Following the 1994/1995 recovery from Hurricane Iniki

and the US and Japanese recessions (totaling more than 20% real growth led by stronger exports and capital investment), Hawaii Travel & Tourism demand fell in 1996 by just over 10% (as a result of reduced visitor spending and, to a lesser extent, reduced capital investment).

Under current conditions, State of Hawaii Travel & Tourism recovery is not expected to begin until next year (1999) when visitor exports are expected to post a 1.5% real increase. It will then take four more years (2003) before Hawaii Travel & Tourism demand fully recovers to better its 1995 results.

For comparative purposes, the Caribbean region is showing small, but consistent real growth between 1995 and 2000. From a global perspective, the current Asian crisis is expected to have a relatively small monetary impact on worldwide Travel & Tourism demand, because the unblemished economies of North America and Europe account for 71% of the world market and they continue to post consistent gains for Travel & Tourism demand.



EMPLOYMENT

The Travel & Tourism economy in the State of Hawaii will generate an estimated 179,950 civilian jobs, directly and indirectly, in 1998, across a broad spectrum of economic activities including:

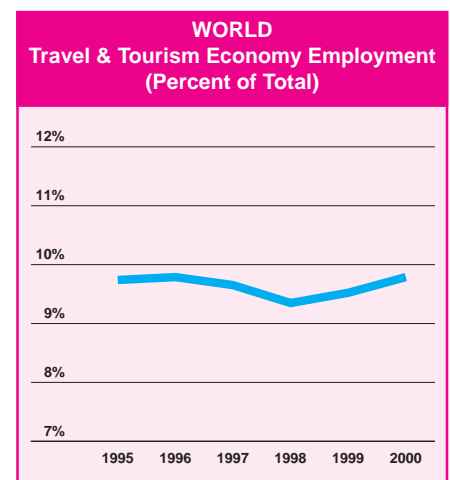
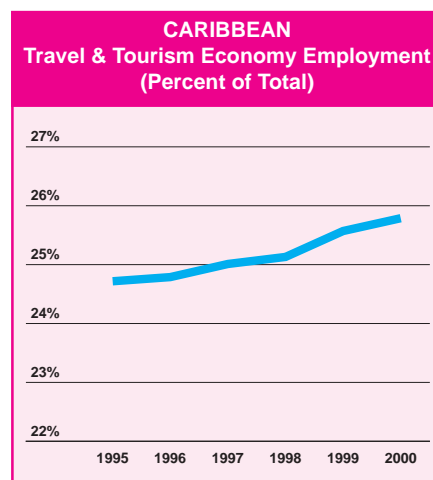
- ◆ Travel company employment, providing private sector services to visitors and business travelers;
- ◆ Government agency employment, providing public sector services to visitors, business travelers and travel companies; and
- ◆ Supplier company employment (manufacturing, construction, wholesale, financial services, agricultural, etc.), which provide goods (consumer and capital) and services to travel companies and government agencies which serve visitors.

These 179,950 jobs account for 31.6% of the 1998 workforce, or 1 in every 3.2 jobs in Hawaii. Although Travel & Tourism is the largest employer in Hawaii, the outlook for 1998 is pessimistic, compounding losses experienced in 1996/1997, when employment began its three year decline. Hawaii Travel & Tourism employment is not expected to return to 1991's peak level of 201,000 jobs until 2002.

In the Caribbean, Travel & Tourism is expected to generate direct and indirect employment for 2.93 million workers, 25.1% of the total regional workforce, or 1 in every 4.0 jobs.

The world results for Travel & Tourism employment are expected to be measurably effected by the Asia/Pacific crisis. During 1997/1998, we expect the Asia/Pacific region to lose more than 10 million Travel & Tourism economy jobs. Some of these loses are masked by gains in Europe and North America, but the world total still falls by nearly 6 million jobs to 231 million jobs in 1998 or 9.4% of total global employment.

Even under the Asia crisis cloud, further examination illustrates that job creation by the Travel & Tourism economy is noticeably easier than in the overall economy. For example, US\$ 1.0 million of additional GSP in Hawaii's Travel & Tourism economy in 1998 will generate 19.1 new jobs. This same US\$ 1.0 million GSP in the Hawaii economy at large will produce 16.8 new jobs, or 13.5% greater job creation intensity for Travel & Tourism. On average, Travel & Tourism jobs will pay \$36,429, or 98.4% of the state average in 1998.



GROSS STATE PRODUCT

The Travel & Tourism economy in Hawaii is expected to directly and indirectly produce \$9.4 billion (27.8% of total) Gross State Product (GSP) in 1998. By 2010, this contribution is forecast to return to historical levels of 32.2%, or \$18.2 billion. However, looking to the near-term, Hawaii's Travel & Tourism economy is not expected to turn around and increase its contribution to Gross State Product until 2002.

Although these results can be clearly linked to reduced spending by Hawaii's primary visitor markets and the downturn of several important Asia/Pacific markets, there is no guarantee that the turnaround will come as projected for 2002. However, assuming the economic situation corrects and Hawaii's Travel & Tourism economy turns, we are forecasting annualized real growth of 3.0% between 1998 and 2010.

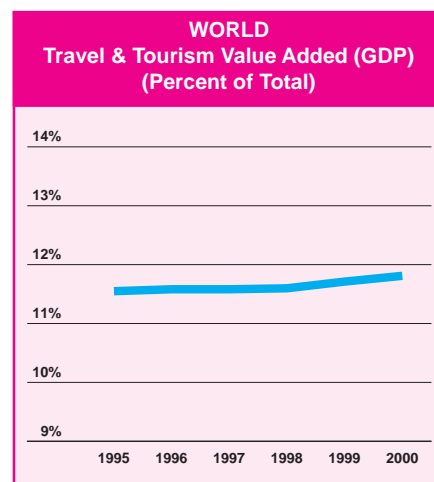
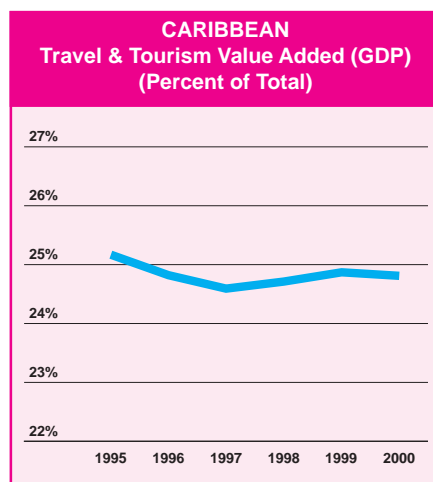
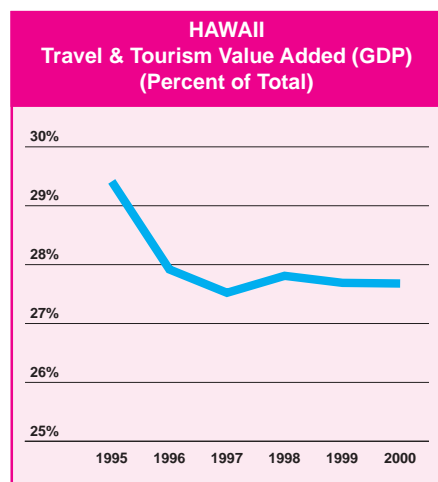
Compared to the Caribbean, Hawaii produces a greater amount of Travel & Tourism economy GSP (averaging 29.3%) than the Caribbean region (averaging 25.5%). This suggests that the Caribbean imports more goods and services for its visitors than Hawaii - thus greater economic leakage for the Caribbean. The

world average GDP contribution from the Travel & Tourism economy for the period of study is 11.8%, far short of Hawaii or Caribbean region results.

The Caribbean region also illustrates an interesting link between absolute Travel & Tourism GDP growth (6.3% per year between 1998 and 2010) and a fairly stable relative contribution to regional GDP, suggesting that Caribbean Travel & Tourism is growing exactly on par with the overall regional economy.

From a global perspective, the Asia/Pacific crisis has tempered the recent growth of Gross Domestic Product generated from the Travel & Tourism economy on a relative scale - Travel & Tourism economy GDP is flat as a percentage of total GDP between 1995 and 2000. However, 1999/2000 promises to recapture the growth prospects for the Travel & Tourism economy.

From a productivity perspective, Hawaii's Travel & Tourism GSP per employee is expected to total \$52,487 in 1998 vs. \$9,815 in the Caribbean and \$15,446 worldwide.



CAPITAL INVESTMENT

Examination of Travel & Tourism capital investment results and forecasts lends greater insight into the market forces at work in a given economy and the expectations by the public and private sector to meet the challenges and opportunities in the years ahead.

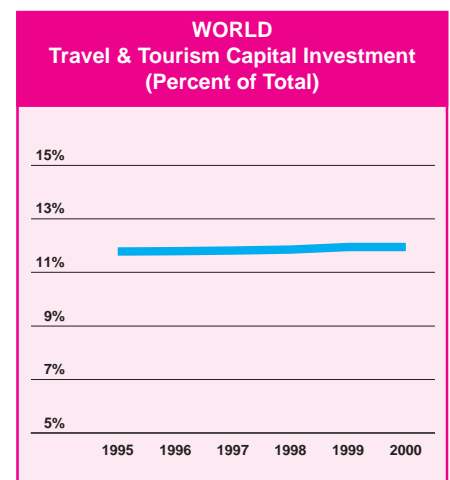
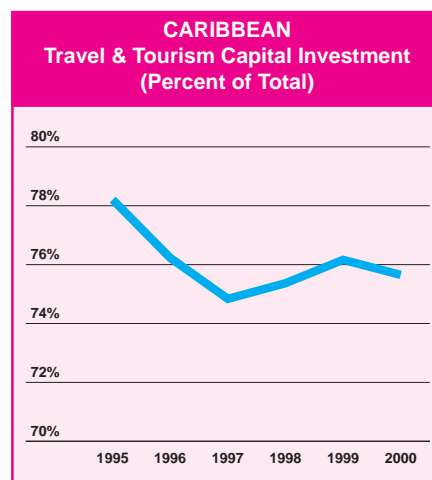
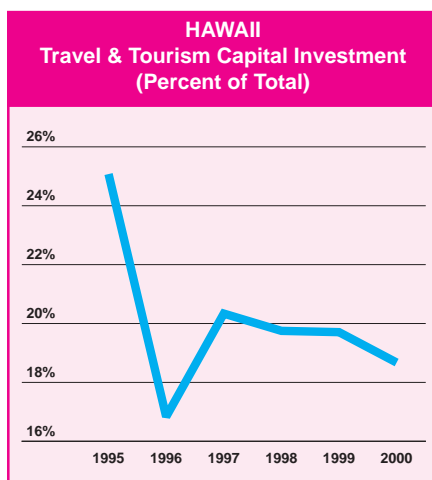
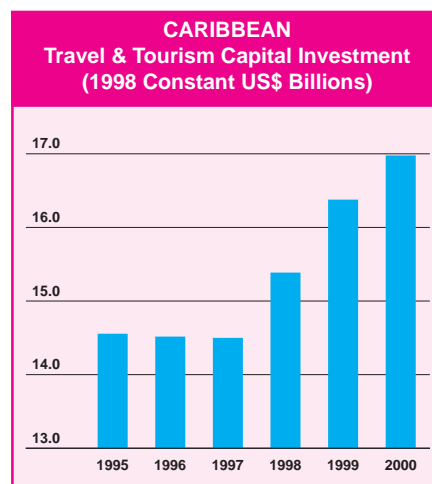
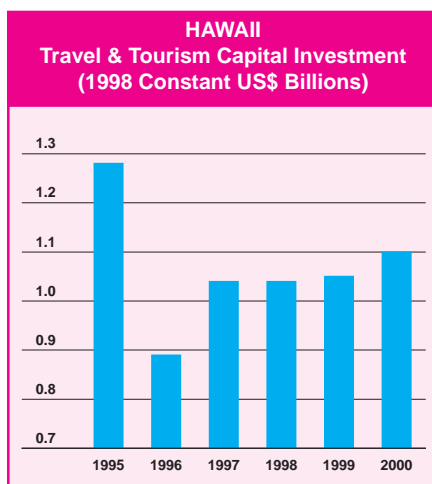
In 1998, Travel & Tourism capital investment in the State of Hawaii is expected to total \$1,044 million or 19.8% of total statewide investment. For Hawaii, this expectation includes \$751 million of investment from the private sector and \$293 million of investment from the public sector. For the period of study (1988-2010), the average contribution of Travel & Tourism to the state capital investment accounts is expected to be 21.3%.

For the most part, Travel & Tourism capital investment tends to be cyclical, with strong links to the business cycle and major events (i.e. natural disasters). This trend appears to be applicable for Hawaii where major investment was made in 1990-1992, followed by a dip in 1993, a peak in 1995 following the US/Japanese recession and Hurricane Iniki, another dip in 1996 and now relatively flat for the near-term.

Looking forward (1998-2010), Travel & Tourism capital investment in Hawaii is forecast to grow 3.4% per year (constant dollars).

In the Caribbean, Travel & Tourism capital investment is estimated at \$15.4 billion (75.4% of total) in 1998. This growth, expected for 1998, is the first in four years, following a plateau between 1995 and 1997. However, even with a temporary hold on growth, Caribbean Travel & Tourism capital investment is at the highest level of investment, as a percentage of total, in the world.

Worldwide, Travel & Tourism capital investment is expected to total \$779 billion or 11.8% of total in 1998. Global growth expectations for 1998-2010 are 4.5% per year (constant dollars).



PERSONAL & BUSINESS TRAVEL

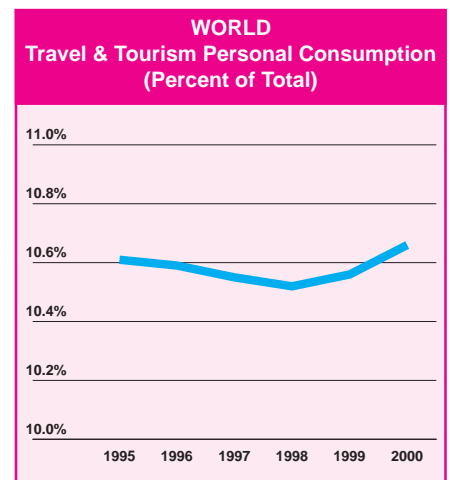
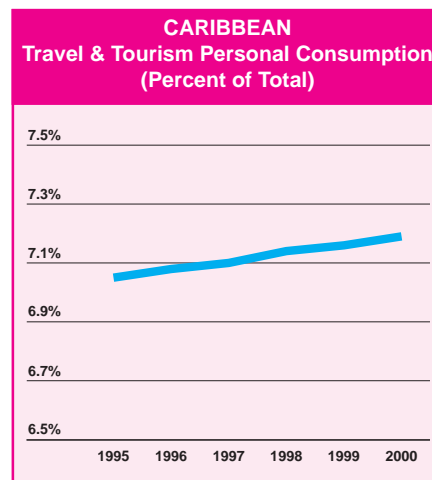
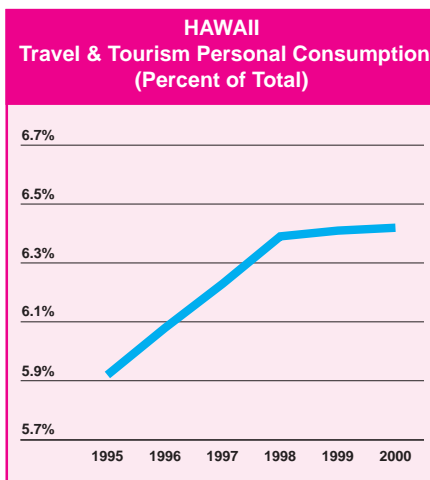
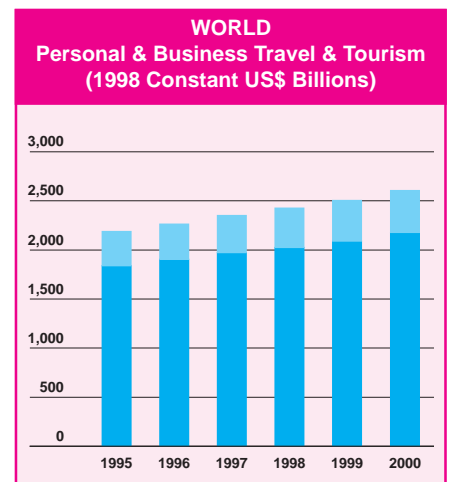
In 1998, the State of Hawaii is expected to generate \$1,463 million of personal Travel & Tourism consumption by in-state residents (6.4% of total) and \$641 million of corporate and government travel by in-state employees (\$622 million corporate, \$19 million government). Unlike the Hawaii visitor exports which depend upon the mainland and international market for consumers, the business generated in these two categories depends on the Hawaii economy itself. As the Hawaii economy grows, Hawaii consumer and business travel follow suit. Over the next twelve years to 2010, personal Travel & Tourism in Hawaii is expected to grow at an annual rate of 1.6%, while business/government travel is expected to grow at an annual rate of 1.5%.

Although part of this Travel & Tourism takes place in-state between islands, part takes place out-of-state. By design, the Satellite Account is required to capture all Travel & Tourism demand attributable to Hawaii residents, visitors and travel companies. When the spending does take place out-of-state, the Satellite Account generates a corresponding "import credit" in the supply

side accounts. This treatment then provides for an accurate assessment of Travel & Tourism "produced" in Hawaii and Travel & Tourism "produced" out-of-state.

Analysis of Hawaii, Caribbean and World results illustrates a couple points of interest. First, Hawaii residents normally spend about 6.4% of their personal expenditures on Travel & Tourism. Generally, this percentage is lower than that found in other states and countries (US average is 11.2% for 1998, world average is 10.5% for 1998), because of a lower level of spending on consumer durables (i.e. personal autos, campers, etc.).

A second point of interest is the ratio of personal consumption and business/government travel. In Hawaii, business/government travel appears to account for a larger portion of the resident generated Travel & Tourism than in the Caribbean or the world. This result may be linked with durables, but it may also result from higher business/government travel expenditures dictated by Hawaii's geographic location to the mainland and international destinations.



EXPORTS

As illustrated by Total Demand, Visitor Exports are the key economic element for Hawaii Travel & Tourism. In 1998, Visitor Exports (\$10.9 billion) are expected to represent 74.3% of total Travel & Tourism demand for the State. As this category fluctuates, the health and vitality of Hawaii's largest economic sector fluctuates.

Although the macroeconomics of Hawaii's visitor markets are well beyond the control of Hawaii's Travel & Tourism economy, strategic market and product segment diversification and effective marketing and promotion can help to smooth the various peaks and valleys of visitor exports.

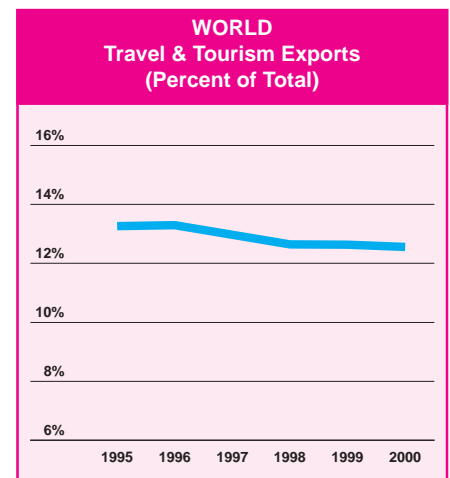
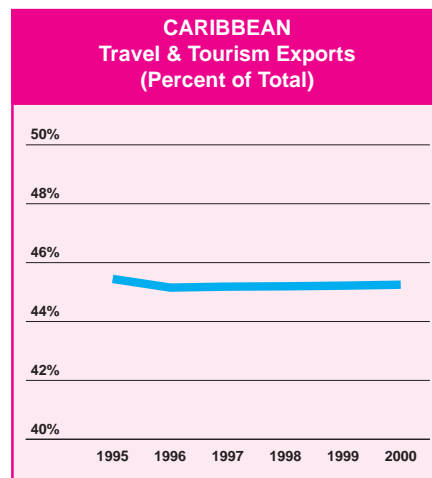
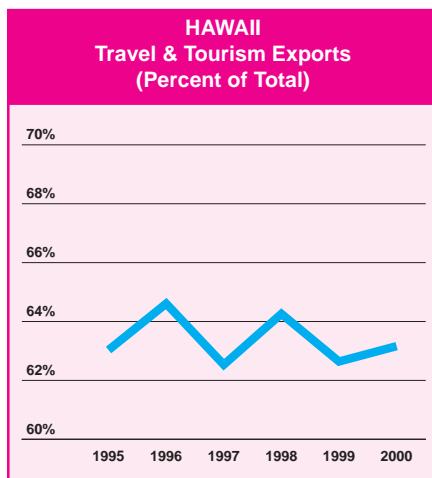
During the period of study for the Satellite Account (1988-2010), Hawaii visitor exports in constant dollars have reached a peak level in 1991, only to fall to the study's lowest level in 1993, followed by a recovery in 1994/1995 and another drop in 1996. Visitor exports for 1998 are expected to be flat with 1996/1997 results.

Although long-term expectations for Hawaii Travel & Tourism visitor export growth (1998-2010) are positive (3.3% annualized real growth), these forecasts, like any other, depend on current assumptions and are therefore

not guaranteed. The recent unanticipated Asia/Pacific crisis, which has had a immediate and measurable effect on Hawaii visitor results, is a perfect illustration of "no guarantee."

The Caribbean, in similarity to Hawaii, has also experienced peaks and valleys of visitor exports, peaking in 1989, followed by a regular series of small gains and losses. It does appear however, that the Caribbean, with a large agricultural base, is also less dependent upon visitor exports (45.2% of total exports for 1998) within its overall export portfolio than Hawaii (64.3% of total exports for 1998).

Globally, visitor exports have grown a healthy 6.6% per year (1988-1998) and are expected to grow well at 5.4% per year over the next twelve years (1998-2010).



GOVERNMENT SPENDING

Federal, State and local government agencies are expected to spend \$543.9 million in Hawaii (6.0% of total) to provide individual and collective government Travel & Tourism services to visitors, travel companies and the community-at-large. Over the next twelve years (1998-2010), Travel & Tourism government expenditures in Hawaii are expected to decrease to 5.0% of total government expenditures, a loss of one full percentage point. This reduction represents an annual constant dollar loss of 1.3% per year.

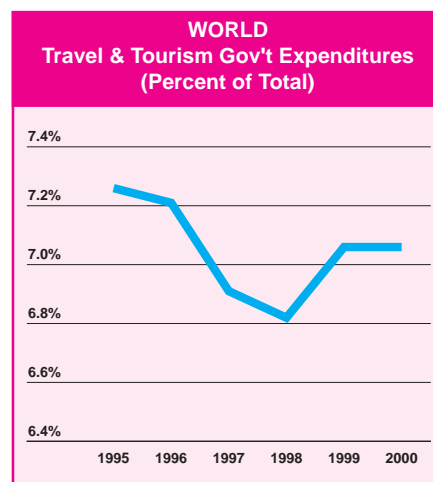
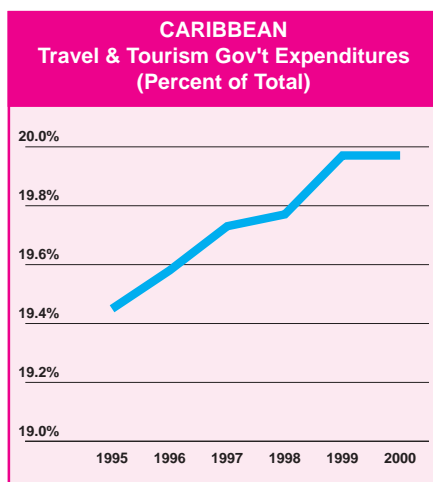
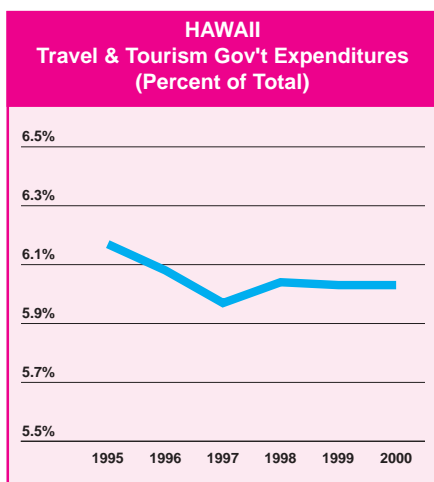
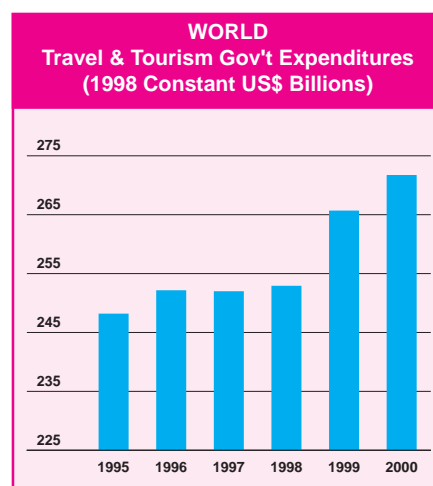
In this WTTC report, 1998 government expenditures include: individual expenditures (\$107.0 million) which can be linked to individual visitors like museum subsidies or immigration services; and collective expenditures (\$436.9 million) which are undertaken for the community-at-large like airport admin. or sanitation.

In the Caribbean, Travel & Tourism government expenditures are expected to continue growing rapidly in constant dollars and share of total government expenditures. In 1998, government expenditures for Travel & Tourism are expected to total 19.8% of total. By 2010, government Travel & Tourism expenditures in

the Caribbean are expected to reach 21.5% of total, growing at a rate of 6.5% per year in constant dollars.

Globally, the average government will spend 6.8% of its total expenditures to support Travel & Tourism. In constant dollar terms, 1998 spending shows little if any gain on 1996 and 1997. In relative terms, this amount has actually fallen over the past two years. However, by 2010, this amount is expected to increase to 7.4% of total government expenditures - an increase of 3.2% per year in constant dollars.

Intuitively, one would assume that there should be a direct link between the size and impact of an industry/sector like Travel & Tourism on the economy (in terms of GSP/GDP) and the amount of funding allocated by governments toward that industry/sector. In Hawaii, the 1998 ratio of Travel & Tourism GSP (percent of total) to government expenditures (percent of total) is 4.6 to 1. In the Caribbean, this same ratio is 1.2 to 1.0. World-wide, this same ratio is 1.7 to 1.0. These results would indicate that the Caribbean governments allocate a significantly higher portion of their expenditures to Travel & Tourism than Hawaii and the average country.



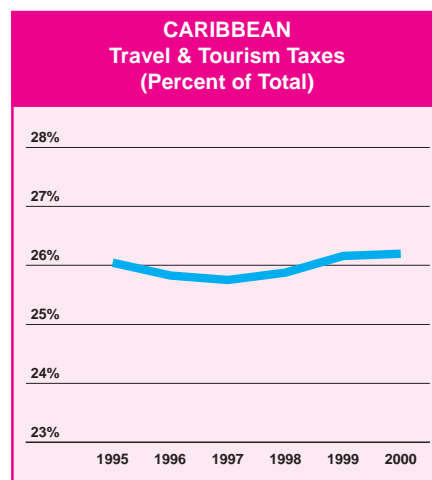
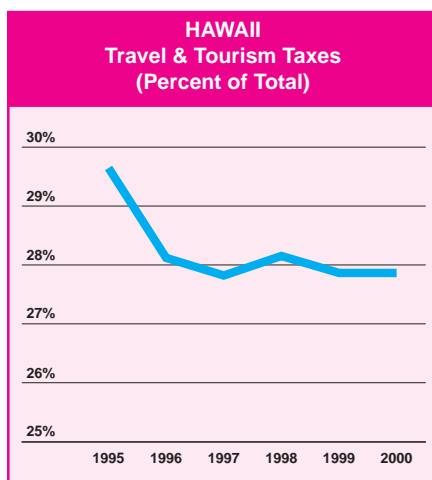
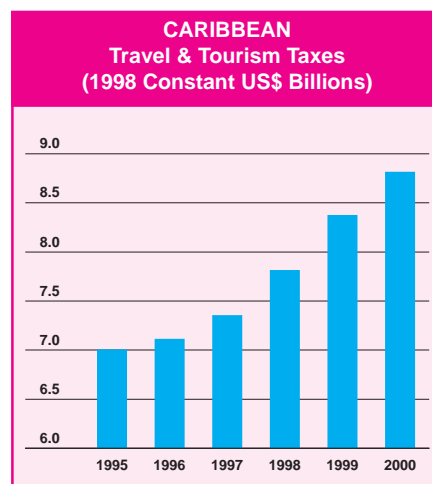
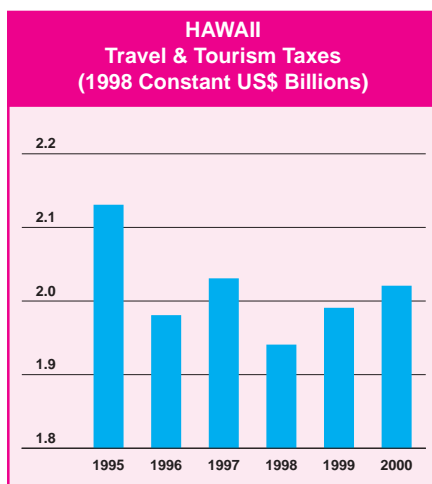
Hawaii's Travel & Tourism economy is expected in 1998 to generate \$1,939 million in tax revenue. The largest portion of this total is from personal income and real property taxes (\$1,178) paid by the 179,950 direct and indirect Travel & Tourism economy employees in Hawaii. Next are the transaction taxes (i.e. sales and transient accommodation taxes) totaling \$420 million generated from sales of Travel & Tourism goods and services. Third is \$207 million generated from property taxes on Travel & Tourism companies, and last is \$134 million of corporate income taxes from these same companies. All tolled, Hawaii's Travel & Tourism economy is responsible for 28.2% of total federal, state and county taxes paid in Hawaii.

Over the next twelve years, Hawaii's Travel & Tourism tax contribution is expected to increase 38.7% in constant dollars or 2.9% per year. By 2010, Travel & Tourism will account for 32.1% of Hawaii's tax revenue.

By definition, the economic success of Hawaii's Travel & Tourism economy dictates the tax contribution it makes to the federal, state and country collections. As Travel & Tourism economy employment increases, so

do personal and real property taxes. As visitor counts and spending increases, so do the transaction taxes collected by Travel & Tourism companies. As Travel & Tourism businesses expand, so do the property and income taxes associated with those businesses. These facts are painfully obvious, but worth remembering, when comparing the tax revenue generated by Travel & Tourism in Hawaii (\$1,939 million expected for 1998) and the government revenues expended on behalf of Travel & Tourism (\$544 billion expected for 1998) in Hawaii.

As an analysis exercise, it is interesting to compare the GSP/GDP generated to the amount of taxes generated. In Hawaii, the ratio of GSP generated by Travel & Tourism (as a percent of total) to taxes generated by Travel & Tourism (as a percent of total) in 1998 is 0.99 to 1.0. In the Caribbean, this same ratio is 0.96 to 1.0. Globally, this ratio is 1.09 to 1.0. These results would suggest that the average country, contributing more GSP/GDP than taxes, is better situated to encourage Travel & Tourism growth than Hawaii or the Caribbean. To be fair, the Hawaii ratio would suggest that its tax burden is par for its GSP contribution.



COMPARING IMPACT

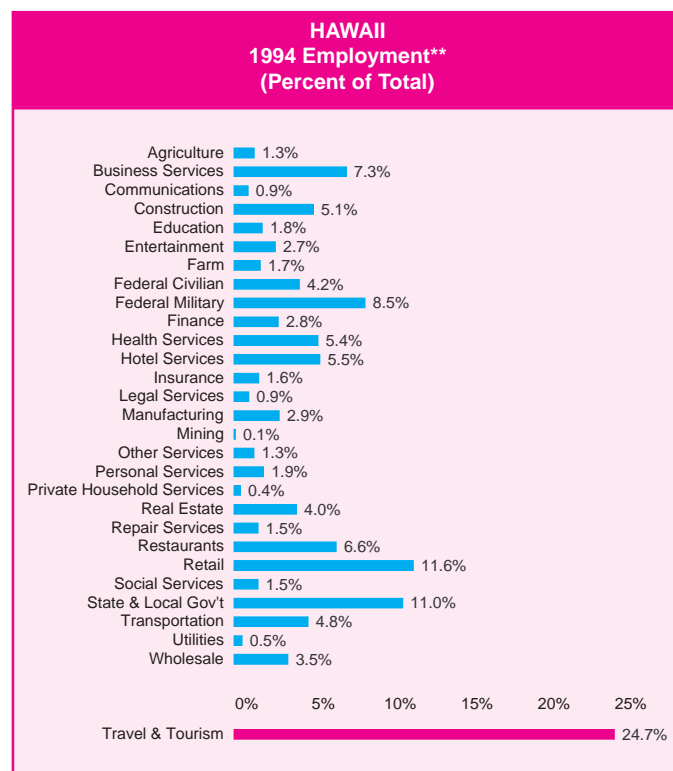
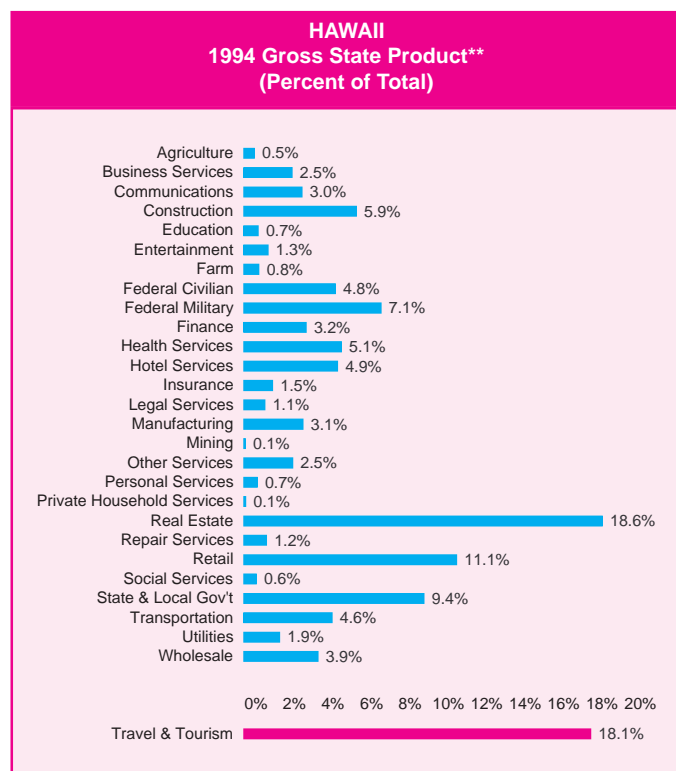
In this year's research, WTTC/WEFA have implemented the proposed international standard for Travel & Tourism Satellite Accounting (Draft III) being developed by a public sector / private sector Experts Committee under the auspices of the World Tourism Organization. One of the primary benefits of this new structure is the ability to make direct comparisons of Travel & Tourism generated GSP/GDP with that of other industries. Unlike previous research when the results were illustrative of Travel & Tourism's direct comparison with other industries, the charts below reflect the technically correct and internationally accepted industry identity for Travel & Tourism GSP and employment

In 1994, Hawaii's Travel & Tourism industry produced 18.1% of Gross State Product (direct industry impact only). Although Real Estate reports 18.6% of Hawaii GSP, this contribution is an accounting anomaly created by the cost of goods sold (real estate), rather than the value added of the Hawaii real estate industry. Thus, Travel & Tourism is still the leading industry in the state. Although Travel & Tourism is not measured in the U.S. Bureau of Economic Analysis's traditional accounts, it is considered a new service industry that can be mea-

sured by National Satellite Accounting principles. In this respect, it is clear that no single industry in Hawaii is as large as Travel & Tourism in terms of GSP contribution. The next largest industries (some of which are contributors to Travel & Tourism) in the state include: Retail at 11.1%, State & Local Government at 9.4%, Federal Military at 7.1% and Construction at 5.9%.

Also in 1994, Hawaii's Travel & Tourism industry generated 24.7% of state employment (direct industry impact only), making it the state's largest employer. The next largest industry employers include: Retail at 11.6%; State & Local Government at 11.0%; Federal Military at 8.5%; Business Services at 7.3% and Restaurants at 6.6%.

Please note, the Travel & Tourism Satellite Account reconstitutes the GSP and employment that are counted in traditional accounts by other industries. Nonetheless, based on this new Travel & Tourism Satellite Accounting structure, which provides for direct comparison of Travel & Tourism with other industries, it is clear that no single industry in Hawaii can compete with Travel & Tourism in terms of Gross State Product or job contribution.



**Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 1997;

**1994 WTTC/WEFA Travel & Tourism data (direct industry GSP and direct industry employment) is used on this page for comparison purposes.

***Portions of the GDP and Employment from the industry sectors above have been reconstituted to produce Travel & Tourism results.

Convention Center P&L Statement					
(US\$ 000's)	1999	2000	2001	2002	2003
Travel & Tourism Satellite Account for Convention Center Attendees					
Inbound Visitor Spending	323,837	410,663	443,007	478,080	516,367
Gross State Product	212,518	269,498	290,724	313,740	338,866
Jobs	3,100	3,828	3,980	4,154	4,316
Convention Center Operations					
Revenues	4,845	6,170	7,572	8,631	9,718
Expenditures	9,738	10,863	12,035	12,865	13,654
Total Operations	(4,893)	(4,693)	(4,463)	(4,234)	(3,936)
Convention Center Debt Service					
T.A.T. Revenues	21,653	22,298	23,005	23,732	24,529
Principle Payments	2,711	19,190	19,123	19,407	19,516
Interest Payments	20,485	20,009	19,017	20,111	19,027
Total Debt Service	(1,543)	(16,901)	(15,135)	(15,786)	(14,014)
Net after Operations & Debt Service	(6,436)	(21,594)	(19,598)	(20,020)	(17,950)
Incremental State and Federal Tax Revenues Resulting from Convention Center Attendees					
Transaction Taxes	10,065	12,688	13,510	14,713	16,004
Personal Income Taxes	25,764	32,672	35,245	38,035	41,081
Corporate Income Taxes	3,670	4,659	4,388	5,427	5,855
Total State and Federal Taxes	39,499	50,019	53,143	58,175	62,940
Less Federal Taxes	(21,215)	(26,906)	(28,626)	(31,325)	(33,829)
Total State Taxes	18,284	23,113	24,517	26,850	29,111
Net Net to State	11,848	1,519	4,919	6,830	11,161
*Please note the Convention Center fiscal year is July to June; the Satellite Account Tax Revenues are calendar year.					

In January 1998, WEFA was asked to enhance the analysis of the Travel & Tourism Satellite Account to identify the incremental economic impact associated with Convention Center attendees/delegates.

This special analysis suggests that Convention Center attendees/delegates will account for:

- ◆ \$324 million of visitor exports in 1999, growing to \$516 million by 2003.

Following application of the input/output model, this new spending is expected to result in:

- ◆ \$213 million of new Gross State Product (direct and indirect) by the Travel & Tourism economy in 1999, growing to \$339 million by 2003.
- ◆ 3,100 new jobs in the Travel & Tourism economy in 1999, growing to 4,316 new jobs by 2003.
- ◆ \$39.5 million of new federal and state tax revenue in 1999 (\$18.3 million to state) generated from increased transaction taxes, increased personal income taxes (from the additional employees), and increased corporate taxes (from additional operating surplus). By 2003, new federal and state tax revenue resulting from Convention Center attendees/delegates is forecast to total nearly \$63 million (\$29.1 million to state).

The above table illustrates the total new tax revenues generated by Convention Center attendees/delegates from the Travel & Tourism Satellite Account and their relationship to the Convention Center P&L Statement. Although the Convention Center Net Income, as a stand alone building, is negative after Operations and Debt Service, the Incremental Tax Revenues Resulting from Convention Center Attendees shows that the Convention Center is a highly profitable venture for the State of Hawaii from day one.

The Convention Center Study

The Convention Center study is based on bookings, targets, and visitor projections provided by the Hawaii Visitors & Convention Bureau (HVCB) with further analysis by WEFA using visitor growth history from convention centers in Columbus, Denver, Philadelphia and Seattle. Future Convention Center visitor growth and spending was developed under a conservative scenario considering the current Asian economy events. After identification of the incremental spending (Visitor Exports), these results were introduced into the Hawaii Travel & Tourism Satellite Account to assess the Convention Center delegates/attendees impact on GSP, individual GSP components and employment. The above incremental tax revenues are a result of this effort. The Convention Center P&L Statement was obtained from the Hawaii Convention Center Authority and is current as of March 24, 1998.

SATELLITE ACCOUNT TABLES

	1995	1996	1997	1998E	1999E	2000E	2010P
Hawaii Travel & Tourism - US\$ (Millions) - Nominal Dollars							
1 Travel & Tourism Demand Side Aggregates							
2 Consumer Expenditures	1,232.21	1,300.00	1,381.62	1,463.32	1,523.19	1,590.03	2,433.76
Durables	107.66	115.12	125.85	134.78	140.47	146.44	226.50
Non-Durables	491.79	507.91	531.05	550.67	571.58	595.44	894.30
Services	632.76	676.97	724.73	777.87	811.14	848.14	1,312.95
3 Business & Government Travel	634.70	628.05	644.30	640.97	668.55	697.05	1,054.16
Corporate	616.02	609.65	625.76	622.13	649.23	677.10	1,027.51
Government	18.68	18.40	18.54	18.84	19.32	19.96	26.65
4 Gov't Expenditures - Individual	109.15	108.43	107.73	106.97	106.97	106.97	106.97
5 Visitor Exports	11,588.00	10,685.00	10,660.96	10,855.26	11,323.76	11,839.76	22,090.24
6 Travel & Tourism Consumption	13,564.07	12,721.48	12,794.62	13,066.53	13,622.47	14,233.81	25,685.12
7 Gov't Expenditures - Collective	421.55	415.12	422.63	436.92	453.05	455.27	536.80
8 Capital Investment	1,290.14	897.49	1,047.98	1,043.75	1,059.12	1,124.72	1,896.43
Public	241.38	283.11	304.22	292.80	282.70	315.09	537.49
Private	1,048.77	614.38	743.75	750.95	776.41	809.63	1,358.94
9 Exports (Non-Visitor)	56.14	55.02	66.23	55.89	58.29	60.79	102.32
10 Travel & Tourism Demand	15,331.91	14,089.10	14,331.46	14,603.09	15,192.92	15,874.59	28,220.69
11 Travel & Tourism Industry Supply Side Aggregates							
Direct and Indirect Effects							
12 Employment (000's)	174.46	170.99	170.50	168.90	174.93	180.61	221.71
13 Gross State Product	8,975.34	8,536.52	8,571.88	8,656.00	9,019.23	9,422.42	16,962.48
14 Wages & Salaries	6,096.99	5,799.21	5,823.71	5,879.95	6,124.14	6,397.02	11,495.09
15 Op. Sur. + Deprec. - Subs.	2,470.05	2,324.25	2,333.48	2,372.76	2,473.53	2,587.47	4,676.54
16 Transaction Taxes	408.30	413.06	414.70	403.29	421.56	437.93	790.85
17 Personal Taxes	1,095.43	1,029.06	1,075.22	1,056.43	1,100.30	1,149.33	2,065.28
18 Corporate Taxes	133.74	144.45	145.03	128.47	153.73	160.81	253.21
19 Property Taxes	204.85	199.65	209.41	208.32	213.47	222.73	332.40
20 Total Taxes	1,842.31	1,786.22	1,844.35	1,796.51	1,889.07	1,970.80	3,441.74
21 Imports	4,588.73	4,184.96	4,222.74	4,410.53	4,603.24	4,811.39	8,722.65
Direct Effects							
Employment (000's)	140.99	138.35	138.31	129.90	134.09	138.04	163.81
Gross State Product	6,354.63	6,038.55	6,062.01	6,123.31	6,379.22	6,663.12	11,981.33
Wages & Salaries	4,390.94	4,172.76	4,189.24	4,231.01	4,405.68	4,600.93	8,255.03
Op. Sur. + Deprec. - Subs.	1,685.14	1,584.24	1,590.17	1,617.40	1,686.17	1,763.69	3,187.30
Transaction Taxes	278.55	281.55	282.60	274.90	287.37	298.50	539.00
Indirect Effects							
Employment (000's)	33.48	32.64	32.19	39.00	40.84	42.57	57.89
Gross State Product	2,620.71	2,497.98	2,509.88	2,532.69	2,640.01	2,759.30	4,981.15
Wages & Salaries	1,706.06	1,626.45	1,634.47	1,648.94	1,718.46	1,796.10	3,240.06
Op. Sur. + Deprec. - Subs.	784.91	740.01	743.31	755.36	787.36	823.78	1,489.24
Transaction Taxes	129.74	131.51	132.10	128.38	134.19	139.42	251.84
22 Travel & Tourism Economy Supply Side Aggregates							
Direct and Indirect Effects							
Employment (000's)	186.34	180.59	181.11	179.95	185.82	191.70	233.16
Gross State Product	9,854.20	9,259.90	9,367.15	9,445.22	9,837.94	10,270.02	18,202.54
Wages & Salaries	6,842.99	6,411.36	6,495.86	6,555.54	6,818.15	7,115.36	12,543.64
Op. Sur. + Deprec. - Subs.	2,584.07	2,418.70	2,438.02	2,469.89	2,580.07	2,698.02	4,840.35
Transaction Taxes	427.14	429.84	433.28	419.80	439.72	456.64	818.55
Personal Taxes	1,229.46	1,137.69	1,199.32	1,177.81	1,224.99	1,278.39	2,253.67
Corporate Taxes	139.92	150.32	151.52	133.73	160.35	167.68	262.08
Property Taxes	204.85	199.65	209.41	207.37	213.44	222.72	332.45
Total Taxes	2,001.36	1,917.50	1,993.53	1,938.71	2,038.51	2,125.43	3,666.75
Imports	5,477.70	4,829.20	4,964.31	5,157.87	5,354.98	5,604.57	10,018.15
Direct Effects							
Employment (000's)	142.97	139.25	139.70	136.52	140.67	144.71	172.38
Gross State Product	7,020.42	6,600.91	6,672.69	6,735.80	7,013.11	7,316.39	12,908.28
Wages & Salaries	4,958.95	4,648.91	4,706.79	4,755.39	4,943.58	5,155.54	9,043.79
Op. Sur. + Deprec. - Subs.	1,769.05	1,657.45	1,669.24	1,692.71	1,768.17	1,848.06	3,305.50
Transaction Taxes	292.42	294.56	296.65	287.70	301.35	312.78	558.99
Indirect Effects							
Employment (000's)	43.37	41.34	41.41	43.43	45.14	46.99	60.78
Gross State Product	2,833.79	2,658.99	2,694.46	2,709.43	2,824.83	2,953.63	5,294.25
Wages & Salaries	1,884.05	1,762.45	1,789.07	1,800.15	1,874.56	1,959.82	3,499.85
Op. Sur. + Deprec. - Subs.	815.02	761.25	768.77	777.18	811.90	849.96	1,534.85
Transaction Taxes	134.72	135.29	136.62	132.09	138.37	143.86	259.56

	1995	1996	1997	1998E	1999E	2000E	2010P
T&T Accounts as % of State Accounts based on Nominal Dollar results							
Consumer Expenditures	5.92	6.08	6.23	6.39	6.41	6.42	6.59
Durables	2.76	2.87	2.99	3.10	3.11	3.12	3.24
Non-Durables	7.93	7.97	8.02	8.06	8.07	8.07	8.12
Services	5.90	6.14	6.39	6.64	6.66	6.69	6.93
Government Expenditures	6.17	6.08	5.97	6.04	6.03	5.94	5.04
Individual	49.04	50.05	49.73	48.59	47.38	45.88	34.90
Collective	4.86	4.77	4.70	4.80	4.83	4.76	4.13
Capital Investment	25.07	16.84	20.34	19.75	19.71	18.68	19.43
Public	22.49	19.25	24.03	22.30	21.72	21.53	22.01
Private	25.75	15.92	19.14	18.91	19.07	17.76	18.58
Exports	63.04	64.61	62.53	64.26	62.64	63.16	70.61
Merchandise	3.52	3.52	3.52	3.52	3.52	3.52	3.52
Services	68.66	70.95	69.80	70.52	68.57	69.18	77.45
Travel & Tourism Industry Supply Side Aggregates (Direct and Indirect)							
Employment	32.11	30.91	30.44	29.64	30.39	31.12	35.90
Gross State Product	26.79	25.74	25.18	25.49	25.39	25.40	30.04
Wages & Salaries	29.29	28.17	27.56	27.88	27.75	27.76	32.77
Op. Sur. + Deprec. - Subs.	22.68	21.77	21.29	21.57	21.51	21.53	25.57
Transaction Taxes	22.68	21.77	21.29	21.57	21.51	21.53	25.57
Economy Aggregates (Direct and Indirect)							
Employment	34.30	32.65	32.33	31.58	32.28	33.03	37.75
Gross State Product	29.41	27.92	27.52	27.81	27.69	27.68	32.24
Wages & Salaries	32.87	31.14	30.74	31.09	30.90	30.87	35.75
Op. Sur. + Deprec. - Subs.	23.73	22.65	22.25	22.45	22.43	22.45	26.47
Transaction Taxes	23.73	22.65	22.25	22.45	22.43	22.45	26.47
Personal Taxes	32.87	31.14	30.74	31.08	30.89	30.87	35.74
Corporate Taxes	23.73	22.65	22.25	22.45	22.43	22.44	26.46
Property Taxes	33.00	33.00	33.00	32.84	31.61	31.61	31.57
Total Taxes	29.65	28.12	27.82	28.15	27.87	27.86	32.05
Imports	29.07	25.29	25.27	25.14	25.04	25.14	28.66
Travel & Tourism Real Growth (Per Annum) based on 1998 Constant Dollars							
Consumer Expenditures	3.63	3.04	4.12	3.79	1.26	1.52	1.32
Business & Government Travel	-1.10	-3.36	0.51	-2.51	1.47	1.40	1.68
Government Expenditures	-4.35	-4.48	-0.95	0.06	0.01	-2.64	-3.35
Exports	6.46	-9.89	-2.10	-0.33	1.49	1.69	3.57
Capital Investment	11.44	-30.30	17.08	0.02	0.38	4.89	2.81
Travel & Tourism Consumption	5.79	-8.41	-1.47	0.08	1.42	1.62	3.22
Travel & Tourism Demand	5.91	-10.26	-0.02	0.01	1.32	1.77	3.07
Travel & Tourism Industry Supply Side Aggregates (Direct and Indirect)							
Gross State Product	5.88	-7.00	-1.55	-0.98	1.53	1.90	3.36
Employment	4.95	-1.99	-0.29	-0.94	3.57	3.25	1.66
Travel & Tourism Economy Supply Side Aggregates (Direct and Indirect)							
Gross State Product	5.65	-8.12	-0.83	-1.13	1.50	1.82	3.16
Employment	4.89	-3.08	0.29	-0.64	3.26	3.17	1.51
Travel & Tourism - US\$ (Millions) - 1998 Constant Dollars							
Consumer Expenditures	1,314.16	1,354.07	1,409.87	1,463.32	1,481.79	1,504.35	1,764.57
Business & Government Travel	676.91	654.17	657.48	640.97	650.38	659.49	764.31
Gov't Expenditures - Individual	118.17	113.66	110.41	106.97	103.90	100.76	77.17
Visitor Exports	12,358.66	11,129.46	10,878.92	10,855.26	11,015.97	11,201.76	16,016.30
Travel & Tourism Consumption	14,467.90	13,251.33	13,056.65	13,066.53	13,252.08	13,466.42	18,622.83
Gov't Expenditures - Collective	456.38	435.13	433.15	436.92	440.06	428.85	387.27
Capital Investment	1,278.65	891.28	1,043.50	1,043.75	1,047.76	1,099.03	1,553.32
Exports (Non-Visitor)	54.05	53.92	66.32	55.89	57.64	59.10	82.62
Travel & Tourism Demand	16,275.36	14,604.70	14,601.99	14,603.09	14,796.09	15,057.84	20,661.60
Travel & Tourism Industry Supply Side Aggregates (Direct and Indirect)							
Gross Domestic Product	9,548.47	8,879.94	8,741.86	8,656.00	8,788.86	8,955.92	12,498.14
Imports	4,920.66	4,367.94	4,311.65	4,410.53	4,462.88	4,509.31	6,119.19
Total Taxes	1,964.17	1,847.99	1,880.47	1,796.51	1,842.76	1,876.67	2,525.17
Travel & Tourism Economy Supply Side Aggregates (Direct and Indirect)							
Gross Domestic Product	10,483.45	9,632.42	9,552.90	9,445.22	9,586.66	9,761.55	13,411.82
Imports	5,791.68	4,973.25	5,049.65	5,157.87	5,209.52	5,296.41	7,250.03
Total Taxes	2,134.88	1,982.42	2,032.08	1,938.71	1,987.77	2,023.13	2,688.85
Other							
Ratio of T&T Economy Gross State Product (Direct and Indirect) as a pct of total to T&T Gov't Expenditures as a pct of total							
	4.76 to 1	4.59 to 1	4.61 to 1	4.61 to 1	4.59 to 1	4.66 to 1	6.40 to 1

TRAVEL & TOURISM DEFINITIONS

Definitions and examples provided for Travel & Tourism concepts listed on Page 13.

- (1) **Travel & Tourism Demand Side Aggregates** is the set of State Accounts [2-10] associated with the use of a good or service.
- (2) **Consumer Expenditures** (a.k.a. Personal Consumption) is spending by State of Hawaii residents on Travel & Tourism services and products. This includes spending before, during and after a trip on various Travel & Tourism services (i.e. air, hotel, car rental, etc.) as well as merchandise (durables and nondurables) purchased during or for the trip. This includes spending on in-state trips and out-of-state trips.
- (3) **Business & Government Travel** is the spending by Hawaii companies and Hawaii-based government agencies on employee business travel.
- (4) **Government Expenditures (Individual)** is current operating spending by federal, state and local government agencies to provide services to individual Hawaii visitors (i.e. customs and immigration, museums and park services, etc.).
- (5) **Visitor Exports** is the sum of inbound visitor spending in Hawaii on services and merchandise by U.S. residents and international visitors.
- (6) **Travel & Tourism Consumption** is the sum of Consumer Expenditures, Business & Government Travel, Government Expenditures (Individual) and Visitor Exports. This aggregate represents the consumption of the Travel & Tourism industry's production.
- (7) **Government Expenditures (Collective)** is current operating spending by federal, state and local government agencies to provide services to the community at-large, but which benefit Hawaii visitors and Travel & Tourism providers (i.e. Air Traffic Control, Tourism Promotion, Highway Administration, etc.).
- (8) **Capital Investment** is spending by individuals, companies and the public sector on Travel & Tourism infrastructure and equipment in Hawaii including vacation homes, aircraft, rental car fleets, hotels/resorts, airport terminals, highways, beaches, etc.
- (9) **Exports (Non-Visitor)** is the sum of all consumer and capital goods produced in Hawaii which are exported (foreign and domestic) for sale to "rest-of-the-world" visitors or out-of-state Travel & Tourism providers.
- (10) **Travel & Tourism Demand** is the sum of Travel & Tourism Consumption, Government Expenditures (Collective), Capital Investment and Exports (Non-Visitor). This aggregate represents the consumption of the Travel & Tourism economy's production.
- (11) **Travel & Tourism Industry Supply Side Aggregates** is the set of State Accounts [12-21] associated with the inputs to production of a Travel & Tourism good or service which is consumed in Hawaii.
- (12) **Employment** is the number of employees engaged by Travel & Tourism providers, suppliers and government agencies which produce Travel & Tourism goods and services which are consumed in Hawaii.
- (13) **Gross State Product** is the economic value added generated by Hawaii providers, suppliers and government agencies which produce Travel & Tourism goods and services which are consumed in Hawaii. This aggregate is the sum of Wages & Salaries, Operating Surplus, Depreciation, and Indirect Taxes, minus Subsidies.
- (14) **Wages & Salaries** (a.k.a. compensation) is the sum of wages, salaries and benefits earned by Travel & Tourism industry employees (defined above in 12) in Hawaii.
- (15) **Deprec. + Op. Sur. - Subs.** is the sum of depreciation and operating surplus (i.e. profits) minus subsidies for Travel & Tourism industry providers and suppliers in Hawaii.
- (16) **Transaction Taxes** is the sum of Federal Excise Taxes, State General & Excise Taxes and Transient Accommodations Taxes for Travel & Tourism Consumption in Hawaii.
- (17) **Personal Taxes** is the sum of Federal and State individual taxes paid by Travel & Tourism industry employees (defined above in 12) in Hawaii.
- (18) **Corporate Taxes** is the sum of Federal and State corporate income taxes paid by Travel & Tourism industry providers and suppliers in Hawaii.
- (19) **Property Taxes** is the sum of real property taxes paid by individuals and Travel & Tourism industry providers and suppliers for Travel & Tourism related properties in Hawaii.
- (20) **Total Taxes** is the sum of industry generated Transaction Taxes, Personal Taxes, Corporate Taxes and Property Taxes.
- (21) **Imports** is the goods and services imported into Hawaii by the Travel & Tourism industry to fulfill the demand of Hawaii Travel & Tourism Consumption.
- (21) **Travel & Tourism Economy Supply Side Aggregates** is the set of State Accounts associated with Hawaii's Travel & Tourism Industry (i.e. inputs to production of a Travel & Tourism good or service which is consumed in Hawaii) as well as Hawaii's Travel & Tourism Suppliers (i.e. inputs to production of a Travel & Tourism good or service which is consumed by the community-at-large or "rest-of-the-world" visitors, or inputs to production of a capital good used by the Travel & Tourism Industry).

To achieve Travel & Tourism's promise for economic development and job creation, WTTC suggests that the citizens, state and local governments of Hawaii and the U.S. federal government consider the following information and recommendations:

Make Travel & Tourism a Strategic Economic Development and Employment Priority

Recognize the Industry's Economic Contribution

The Travel & Tourism industry is highly fragmented and its economic effects flow across the policy spectrum - employment, transport, construction, communications, regional development, infrastructure, taxation, trade/exports and the environment. As a whole, Travel & Tourism plays a vital role in economic development and job creation in the State of Hawaii. No other single industry – including real estate, retail trade, state and local government, military, construction, health services, federal government, manufacturing or agriculture – can match Travel & Tourism's contribution to GSP or employment.

Despite this extensive impact, Travel & Tourism is often not adequately taken into account in broad economic policy determinations.

Travel & Tourism offers significant potential for boosting economic growth, investment and export trade. It is particularly effective in developing small businesses and creating jobs in urban and rural areas where structural unemployment is highest.

To this end, the industry should be factored into mainstream decision making on infrastructure, employment and exports, at federal, state and local levels. The focus should be on creating a positive business climate and public attitude for investment, growth and job creation for Travel & Tourism.

Establish a National Satellite Account

Because National and State Accounts and general economic indicators do not specifically identify Travel & Tourism, its impact is often ignored or at best understated in reports and analyses of economic performance. In 1993, the United Nations body responsible for national accounting recommended that governments create Satellite Accounts for Travel & Tourism in order to remedy this situation. As an interim measure, WTTC, working with the WEFA Group, evolved a methodology for simulating such accounts.

The State of Hawaii and United States as a whole should urgently establish an official State and National Satellite Account for Travel & Tourism. In the meantime, WTTC stands ready to work with the State of Hawaii, Department of Business Economic Development and Tourism and the U.S. Department of Commerce to make the widest possible use of the WTTC/WEFA research. Furthermore, the State of Hawaii should play a leadership role in encouraging other states and countries to establish Travel & Tourism Satellite Accounts to help track the industry's input to the global economy, and as a basis for policies to increase that contribution.

Action

- ***Ensure that Travel & Tourism's impact and potential are understood by state citizens and across federal, state and local government departments. Integrate Travel & Tourism into mainstream policies for job creation, export growth, infrastructure development and investment stimulation.***
- ***Create a State Satellite Account for Travel & Tourism in Hawaii as recommended by the UN Statistical Commission in 1993, and support the same on a national level.***

Move Toward Open and Competitive Markets

Liberalize Markets

A liberal international trading system with free-flowing markets for goods and services will help Travel & Tourism grow. Increased trade encourages business trips, and growing disposable income expands leisure travel. Protectionism has the reverse effect.

The successful conclusion of the Uruguay Round will give a boost to trade generally, and the General Agreement on Trade in Services (GATS) offers worldwide prospects for liberalization of barriers to Travel & Tourism. There is a strong need for action to implement these accords.

In liberalizing Travel & Tourism, the biggest single challenge is to achieve competitive air transport regimes. Across the U.S., the majority of international business travelers, as well as a significant and growing number of leisure travelers, arrive by air. Virtually all intercontinental travel and travel to Hawaii involves this mode. Many bilateral aviation agreements and national air transport policies have limited the potential growth of Travel & Tourism by protecting national airlines.

Recent studies suggest that the drawbacks to national economies from protectionist aviation regimes dramatically outweigh the benefits, when measured in terms of GDP, tax revenues and jobs. WTTC's report *"The Way Forward"* makes a strong economic case for liberalization, focusing on: the elimination of market controls; privatization; cross border ownership; an end to subsidies; and fair competitive opportunities. The U.S. Commission to Ensure a Strong Competitive Airline Industry has suggested similar approaches that have been broadly endorsed by the federal administration. The U.S. should continue to press vigorously for multi-lateral and bilateral liberalization of international air transport services.

The Asia/Pacific Travel & Tourism market is widely recognized as the fastest growing market in the world, with airline transportation as the primary means of transport within the region. As new technology develops, operations between these markets and the U.S. mainland will have the capability to increasingly overfly Hawaii. As the region moves to more liberal aviation regimes, it is imperative that new bilateral and multilateral agreements between APEC (Asia Pacific Economic Council) states give opportunity for expanded operations to and through Hawaii. The U.S. should give high priority in its aviation negotiations to opening the market between Hawaii and the Asian countries.

A related issue is the need to ensure that international telecommunications markets are also liberalized. An increasing amount of Travel & Tourism operations - and virtually all distribution and sales transactions - flow through telecommunications circuits. Where these are monopoly-controlled, there are often restrictions on access, high costs and unreasonable operating conditions. This in turn limits the potential for market-oriented expansion of Travel & Tourism with negative national and international economic impacts.

Enhance Promotion

Foreign visitors' spending is a valuable export. The same tools should be available for Travel & Tourism export promotion as for other export industries. Hawaii has world class products to offer international visitors, including its cities and country side, its natural and man-made attractions, its historical, artistic and cultural heritage and its climate of peace, stability and freedom.

An increasing number of governments are beginning to understand the value of Travel & Tourism to their economies and are turning their attention to measures that will enhance their comparative advantage in this area.

The global market is becoming increasingly competitive. Major tourism receiving destinations - such as the

Caribbean, Australia, Spain and Mexico - have devoted substantial government resources and funds to improve products and marketing. They have also stimulated private sector funds to do likewise. Canada recently restructured its Travel & Tourism promotional machinery - creating a top-level, private sector-driven Tourism Commission, tapping the federal budget for promotion, and challenging the private sector to match that effort. The U.S., with Hawaii's strong support, should do no less to remain competitive.

Action

- ***Promote competitive markets by supporting implementation of the GATS, continuing to encourage bilateral and multilateral air transport liberalization with Asia/Hawaii markets as a high priority and pressing for deregulation of worldwide telecommunications markets.***
- ***Support increased public/private sector cooperation in promoting Hawaii Travel & Tourism through dedicated permanent state and local government contributions and funding to Hawaii destination marketing organizations.***
- ***Establish and promote state and local branding and marketing to ensure international competitiveness.***
- ***Encourage the U.S. federal government to support national brand marketing through the post White House Conference process.***

Pursue Sustainable Development

Promote Sustainability

Travel & Tourism is responsible for moving, accommodating, feeding and entertaining hundreds of millions of people each year. Aircraft manufacturing, hotel construction and travel infrastructure development are integral parts of the operation. As markets open and business increases, there is a responsibility to ensure that development proceeds in harmony with the environment. Travel & Tourism has a key interest here: the environment is the core of its product and must be preserved for business sustainability as well as the global imperatives.

As governments implement policies in response to the Rio Earth Summit, they have many choices about the form and nature of their actions, the degree of penalty or incentive, and the use of market-driven or regulatory-based instruments. The Travel & Tourism industry strongly believes that the environmental policy agenda should focus on self-improvement, incentives, and light-handed regulation as the preferred approach. This will encourage the innovation and business acumen of the industry to significantly improve environmental performance.

WTTC recently launched its GREEN GLOBE program — backed by more than 20 Travel & Tourism industry associations — which aims to build an environmental ethic into all aspects of the Travel & Tourism business. GREEN GLOBE offers a practical program for environmental self-improvement to Travel & Tourism companies of any size, type or location, drawing on a global database of best practices and a worldwide network of advisors. The program encourages companies to enter into a continuing cycle of assessment/improvement with a variety of guidance and support services to help adapt corporate culture and practices.

WTTC believes the State of Hawaii should encourage industry self-regulatory efforts such as GREEN GLOBE as a flexible, market-based environmental awareness program, avoiding excessive regulation in this area.

Restructure Land Use Procedures

An integral component of the Rio Earth Summit's Agenda 21 is development. Just as governments and the private sector are addressing the modalities of ensuring responsible development through self-regulatory programs like GREEN GLOBE, they must also evaluate the legal and bureaucratic requirements of the development process.

In Hawaii, land and water use processes are often costly, burdensome and lengthy, resulting from unnecessary duplication and poor or arbitrary definition of standards and responsibilities. Clarification of zoning responsibilities, establishment of review time limits, concurrent permit processing, limitation of exactions, and allowances for compliance approval would all help ameliorate the problem. The recent amendment of the Waikiki Special District ordinance, and reduction of building permit processing time on Oahu by 50 percent are positive steps to improve the current development process.

Action

- ***Develop a market-oriented environmental policy framework and support private sector initiatives for improved environmental performance.***
- ***Restructure land and water use approval processes to clarify requirements, add certainty and reduce unnecessary time and expense in the development process.***

Eliminate Barriers to Growth

Some aspects of the efficient working of Travel & Tourism markets have such an important impact on growth potential that they must be treated as barriers to development. They require a deliberate strategic response if the wealth and job creation capabilities of Travel & Tourism are to be optimized. In some instances, the constraints are a direct result of government action or inertia; in others, the industry plays a part. However in all cases, their elimination calls for action and investment from the public sector.

Expand Infrastructure

In many states and countries, Travel & Tourism infrastructure faces critical development challenges resulting from inadequate policies, planning and funding over many years.

Of particular concern is the air transport sector, where airport expansion and air traffic control system (ATC) modernization is a very high priority, particularly across the Pacific. Current land-based ATC systems should be switched to satellite navigation as soon as possible to contain operating costs, improve safety and reduce congestion. An increased private sector role should be pursued.

On the ground, Hawaii's Travel & Tourism faces challenges in upgrading and improving its product and infrastructure, including highways, roads, beaches and meeting facilities. Although several projects are underway, including the new Convention Center, to address some of these issues, greater attention must be paid to make sure the Hawaii travel product meets the requirements and standards of an increasingly demanding and discriminating visitor market.

Expedite Airport/Border Clearance

Another major infrastructure problem arises at international border crossings, particularly at Hawaii's airports. With the number of travelers expected to double over the decade, and with pressures on budget and space resources, it will be increasingly important to apply modern automation technology and business procedures to speed up border clearance.

The United States Immigration and Naturalization Service (INS) has taken the lead in implementing a pilot project which WTTC calls FAST - Future Automated Screening for Travelers. FAST systems, which are under consideration in a number of countries and individual airports, including Honolulu International, use biometric identification and automated processing to expedite clearance while enhancing security. This experiment has proven successful and should be expanded to all border crossings.

The highly successful visa waiver program has made travel to the United States and Hawaii much easier for citizens of those countries included in the program. Hawaii should encourage the INS to extend and make permanent the visa waiver program and eliminate visa requirements where possible.

Tax Intelligently

Travel & Tourism is expected to generate US\$ 716 billion of global tax revenue in 1997. The industry should pay its fair share of taxes, but it does object when governments ignore the basic principles of intelligent taxation:

Fair revenue generation means that taxes have to be paid, as there is no feasible way of funding public services over the long run. But while the Travel & Tourism industry will pay its part in accordance with basic principles, its tax burden should not be raised by special taxes or inappropriate user charges.

Efficiency means getting the most out of your resources, both in the short and long-term. To be efficient, taxes should interfere as little as possible with using resources in their most productive way, should not choke off demand, and should not increase production costs. Most importantly, this applies to international trade, where international visitors are an export and should receive the same tax consideration as other exports.

Equity means that Travel & Tourism and its consumers should be treated equitably by the tax system, and should not face a heavier tax burden than other industries.

Simplicity is important for both the taxpayer and the tax authorities. For the taxpayer (industry), simplicity invigorates initiative and encourages growth. For taxing authorities, simplicity decreases the costs of administration and increases compliance. Because Travel & Tourism is subject to so many different local, regional and national taxes, it is particularly vulnerable.

Effective stimulus to growth means that taxes should be used to promote, not hinder, economic growth and job creation. Because Travel & Tourism is a labor intensive industry with a large impact on the economy of Hawaii, it can act as an economic catalyst by initiating growth quickly.

"Add-on taxes" and user fees are a real case in point. They are proliferating at airports, on air tickets, rental cars, hotel rooms and restaurant meals - levied by local, state and federal authorities. They comprise one of the fastest growing areas of operating costs, and if unconstrained, can contribute to raising total trip costs to levels that depress demand, impairing international competitiveness.

Invest in Human Resources

As a major source of employment in Hawaii and the U.S., Travel & Tourism has to be at the forefront of new education and training techniques and technologies - especially given the evolution in products, major shifts in markets and increasing emphasis on service quality, which will characterize Travel & Tourism over the next decade.

The industry itself is investing substantial amounts in retraining programs for existing staff and in basic service programs for new entrants. What is needed is a much greater emphasis on public education and career programs for job prospects in Travel & Tourism, as well as closer coordination between public and private sector schemes.

Provide for Visitor Safety and Security

Recent high visibility events in Hawaii and other destinations have reinforced the importance of addressing visitor safety and security issues in all tourist destinations including Hawaii. As criminal activity grows worldwide, travelers are increasingly exposed to petty and violent crime. Although few of the millions of travelers are actually affected, WTTC believes that governments cannot afford to ignore this issue as it has the potential to become a serious barrier to travel. If safety is not firmly addressed on an international, national, and local level, it will simply become increasingly visible, costly and demand depressant.

WTTC encourages local governments to increase and improve safety measures for travelers and upgrade traveler safety information, coordinate safety mechanisms and procedures between industry and government, and promote constructive media reporting.

Action

- **Support improvement of Travel & Tourism infrastructure with emphasis on expanded airports, satellite-based air traffic control, highways, roads, beaches and meeting facilities.**
- **Support FAST border clearance, encourage visa waiver extension and visa elimination.**
- **Apply basic economic principles of taxation - fair revenue generation, efficiency, equity, simplicity and effective stimulus to growth - to Travel & Tourism. Apply export incentives and exemptions where applicable.**
- **Include Travel & Tourism in high school and university programs and career guidance schemes. Ensure that the industry's training programs have full access to public job creation incentives.**
- **Improve visitor safety and security programs.**

What is GREEN GLOBE?

GREEN GLOBE is a worldwide environmental management and awareness program for the Travel & Tourism industry.

Its prime objective is to provide a low-cost, practical means for all Travel & Tourism companies to undertake improvements in environmental practice.

Why GREEN GLOBE?

A clean healthy environment is the core of the Travel & Tourism product, and is essential to future development. Good environmental practice is not only morally right; it makes sound business sense and can lead to significant cost savings.

What are its origins?

GREEN GLOBE was developed by the World Travel & Tourism Council (WTTC), a global coalition of industry Chief Executive Officers, with the involvement of the Earth Council and its Chairman, Dr. Maurice Strong, former Secretary General of the 1992 Rio Earth Summit. The concept has the broad support of the United Nations Environment Program (UNEP).

Major regional and sectoral Travel & Tourism organizations have joined GREEN GLOBE as Industry Associates and are working to encourage their members' participation.

Who can join?

Membership is open to Travel & Tourism companies of any size, type and location which commit, at chief executive officer level, to improvement in environmental practice.

How does it work?

GREEN GLOBE helps a company to develop an environmental program suited to its specific requirements, and brings numerous business benefits. GREEN GLOBE members have access to:

- ◆ **Advice** in tailoring company practices to changing environmental needs
- ◆ **Tools** to help evaluation and to improve performance
- ◆ **Information** on environmental good practice and cost saving techniques
- ◆ **Recognition** of your company's environmental commitment

What are the benefits?

- ◆ Continuous practical help, to build environmental considerations into daily business decisions
- ◆ A service which is tailored to the size, business focus and level of environmental activity of your company
- ◆ Cost-saving and commercial opportunities

What is the cost?

Membership fees are structured to ensure that the program is accessible to companies of any size; they range from US\$ 200 per annum for companies with turnover of less than US\$ 1 million, to US\$ 7,500 for companies with turnover of more than US\$ 30 million.

If your company is not already a GREEN GLOBE Member, and you would like further information about the program, please contact the GREEN GLOBE Office at 20 Grosvenor Place, London SW1X 7TT, United Kingdom. Tel: +44 171 930 8333. Fax +44 171 930 7779. E-mail on Internet: 100104.2605@compuserve.com



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